

## YOU CAN AFFORD TO RETIRE!

By Tammy Flanagan

Even some federal employees who have met the age and service requirements for retirement after a full career don't know whether they can afford to retire. No matter what career stage you're in, it makes sense to improve your financial literacy and evaluate your retirement readiness.

Some financial planners use a replacement rate of 70 percent to 80 percent of pre-retirement income as a guide for an affordable retirement. You may have more confidence in planning for life after government if you can visualize how much of your pre-retirement income you will have.

### Solution

Comparing your salary to your projected retirement income can be a liberating and revealing exercise. You may find out that retirement is more affordable than you think.

Even if you haven't worked in government for 40 years and don't have \$1 million in your Thrift Savings Plan account, you can still have a very comfortable retirement.

To gauge your projected income, you will need the following documents (see the Resources section below to learn how to obtain them):

- Estimated retirement computation
- Leave and earnings statement
- TSP statement
- Social Security statement
- Court order or divorce decree (if retirement benefits are affected)

Use this information to help complete the worksheet below ([click here for a printable version](#)).

Note: Multiply biweekly numbers on your leave and earnings statement by 26 and monthly numbers on your retirement estimate by 12.

Annual Pre-Retirement Income		Annual Retirement Income	
Basic Salary (with locality)		Estimated Retirement	
Overtime	+	Age Reduction(1)	-
Bonus	+	Unpaid Deposit Reduction (1)	-
		CSRS Offset Reduction (1)	
		Survivor Election (1)	-
		Former Spouse Court Order Award	-
		FERS Supplement (2)	+
		Reduced Retirement	
Health Insurance	-	Federal Taxes	-

(FEHB)			
Social Security Tax (FICA)	-	State Taxes (3)	-
Medicare Tax (HIT)	-	Health Insurance (FEHB)	-
Thrift Savings Plan	-	Life Insurance (FEGLI)	-
Federal Taxes	-	Other Withholdings	-
State Taxes	-		
Life Insurance (FEGLI)	-		
Long-Term Care Insurance			
Retirement Contribution	-		
Flexible Spending Account	-		
Other Withholdings	-		
NET INCOME:		NET RETIREMENT:	
		Social Security Income (4)*	+
		TSP Income (5)*	+
		Other Pensions *	+
		Other Investment Income*	+
		Post-Retirement Work*	+

**1. Your retirement could be reduced for early retirement, civilian or military service credit unpaid deposits, CSRS Offset and survivor benefit reductions. These numbers can be computed on a retirement estimate prepared by your agency's benefits office.**

**2. The FERS Supplement is not payable if you are going to work and earn substantial income after retirement (in 2006, the supplement is reduced by \$1 for every \$2 that you earn over \$12,480). If you are retiring at age 62 or later, the supplement is not payable. MRA+10 and deferred retirements are not eligible for the supplement.**

**3. Depending on the state you live in when you retire, you may not need to pay state income tax or some of your retirement income may be exempt from state income tax.**

**4. Social Security retirement is payable at age 62 or later. Up to 85 percent of your Social Security benefit may be taxable. In some cases, your spouse (current, former or deceased)**

may provide Social Security benefits that could be higher than your own. Social Security will assist you to determine the most advantageous benefit.

5. Go to [the TSP Web site](#) to explore various withdrawal options. Calculators are available for monthly payout options as well as the annuity option.

\* Use income after deductions for taxes and other withholdings.

Here's how the form might look if filled out by a FERS employee who has 34 years of service (22 federal and 12 private sector) and is 56 years old:

Annual Pre-Retirement Income		Annual Retirement Income	
Basic Salary (with locality)	\$85,000	Estimated Retirement	\$17,765
Overtime	+ \$0	Age Reduction(1)	- \$0
Bonus	+ \$0	Deposit / Redeposit Reduction (1)	- \$0
		Survivor Election (1)	- \$1,776
		CSRS Offset reduction (1)	
		Former Spouse Court Order Award	- \$0
		FERS Supplement (2)	+ \$8,448
Total Income:	\$85,000	Reduced Retirement	\$24,437
Health Insurance (FEHB)	- \$3,525	Federal Taxes	- \$5,376
Social Security Tax (FICA)	- \$5,051	State Taxes (3)	- \$0
Medicare Tax (HIT)	- \$1,181	Health Insurance (FEHB)	- \$3,525
Thrift Savings Plan	- \$15,000	Life Insurance (FEGLI)	- \$339
Federal Taxes	- \$14,052	Long Term Care Insurance	- \$1,200
State Taxes	- \$3,193	Other Withholdings	
Life Insurance (FEGLI)	- \$339		
Long Term Care Insurance	- \$1,200		
Retirement Contribution	- \$680		
Flexible Spending Account	- \$2,600		
Other Withholdings	- \$0		
NET INCOME:	\$38,179	NET RETIREMENT:	\$13,997
		Social Security Income (4)	\$0
		TSP Income (5)	\$10,000
		Other Pensions *	\$0
		Other Investment Income*	\$7,000
		Post-Retirement Work*	\$12,000
Net Income	\$38,179	Net Retirement	\$42,997

Here's another example, of a CSRS employee who has 34 years of service and is 55 years old:

Annual Pre-Retirement Income		Annual Retirement Income	
Basic Salary (with locality)	\$85,000	Estimated Retirement	\$51,881
Overtime	+ \$0	Age Reduction(1)	- \$0
Bonus	+ \$0	Deposit / Redeposit Reduction (1)	- \$372
		Survivor Election (1)	- \$4,880
		Former Spouse Court Order Award	- \$0
		FERS Supplement (2)	+ \$0
Total Income:	\$85,000	Reduced Retirement	\$46,629
Health Insurance (FEHB)	- \$3,525	Federal Taxes	- \$9,745
Social Security Tax (FICA)	- \$0	State Taxes (3)	- \$0
Medicare Tax (HIT)	- \$1,181	Health Insurance (FEHB)	- \$3,525
Thrift Savings Plan	- \$8,500	Life Insurance (FEGLI)	- \$339
Federal Taxes	- \$15,482	Long Term Care Insurance	- \$1,200
State Taxes	- \$3,648	Other Withholdings	
Life Insurance (FEGLI)	- \$339		
Long Term Care Insurance	- \$1,200		
Retirement Contribution	- \$5,950		
Flexible Spending Account	- \$2,600		
Other Withholdings	- \$0		
NET INCOME:	\$42,575	NET RETIREMENT:	\$31,820
		Social Security Income (4)*	\$0
		TSP Income (5)*	\$5,000
		Other Pensions*	\$0
		Other Investment Income*	\$0
		Post-Retirement Work*	\$12,000
Net Income	\$42,575	Net Retirement	\$48,820

So what does all of this mean?

The "net" numbers in the examples above may look almost too good to be true. Remember, they represent employees who got used to living on less by saving for retirement in the TSP plan or other retirement savings program. If you haven't invested much prior to retirement, your numbers may not look as good, and you might need to work longer to accumulate enough wealth to retire. Many factors will determine your retirement readiness. Understanding the value of your benefits is the first step in planning for your retirement.

## Resources

- [Chapter 40 of the CSRS and FERS Handbook](#) (Planning and Applying for Retirement)
- [Mymoney.gov](#): A good resource to understand more about money management.
- [Choose to Save](#) from the Employee Benefit Research Institute: Learn more about saving for retirement and get a ballpark estimate of how much you need to save.
- [Request a Social Security Statement](#)
- [Apply for Social Security Benefits](#)
- [Thrift Savings Plan site](#): To compute monthly income from your TSP investments and project your balance.

## Checklist

- **Office of Human Capital**: Request a retirement estimate that reflects reductions for unpaid deposits, survivor elections and insurance withholding.
- **Social Security Administration**: Make an appointment by calling 1-800-772-1213 to discuss your entitlement to benefits. You can apply up to three months before you are eligible for benefits.
- **Pre-Retirement Seminar**: Most agencies provide pre-retirement training for employees who are nearing retirement as well as for employees in mid-career. A seminar is a good place to begin to understand your valuable federal benefits and begin planning for life after retirement.

## Follow Up

Take the steps necessary to understand and compare your pre-retirement and post-retirement income. It's a worthwhile investment of your time.

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